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The Effects of Digital Music Distribution

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The research paper was a study of how digital music distribution has affected the music industry by researching different views and aspects. I believe this topic was vital to research because it give us insight on were the music industry is headed in the future. Two main research questions proposed were; "How is digital music distribution affecting the music industry?" and "In what way does the piracy industry affect the digital music industry?" The methodology used for this research was performing case studies, researching prospective and retrospective data, and analyzing sales figures and graphs. Case studies were performed on one independent artist and two major artists whom changed the digital music industry in different ways. Another pair of case studies were performed on an independent label and a major label on how changes of the digital music industry effected their business model and how piracy effected those new business models as well. I analyzed sales figures and graphs of digital music sales and physical sales to show the differences in the formats. I researched prospective data on how consumers adjusted to the digital music advancements and how piracy industry has affected them. Last I concluded all the data found during this research to show that digital music distribution is growing and could possibly be the dominant format for obtaining music, and the battle with piracy will be an ongoing process that will be hard to end anytime soon.

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THE EFFECTS OF DIGITAL MUSIC DISTRIBUTION

by

Rama A. Dechsakda

B.A., Columbia College Chicago, 2008

A Research Paper

Submitted in Partial Fulfillment of the Requirements for the
Master of Science Degree

Department of Mass Communication & Media Arts
in the Graduate School
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RESEARCH APPROVAL

THE EFFECTS OF DIGITAL MUSIC DISTRIBUTION

By

Rama Dechsakda

A Research Paper Submitted in Partial

Fulfillment of the Requirements

for the Degree of

Master's of Science

in the field of Media Management & Strategic Communication

Approved by:

Dr. Paul Torre, Chair

Graduate School
Southern Illinois University Carbondale
12/14/11

AN ABSTRACT OF THE RESEARCH PAPER OF

RAMA A. DECHSAKDA, for the Master of Science degree in MEDIA MANAGEMENT & STRATEGIC COMMUNICATION, presented on MARCH 28, 2012, at Southern Illinois University Carbondale.

TITLE: THE EFFECTS OF DIGITAL MUSIC DISTRIBUTION

MAJOR PROFESSOR: Dr. Paul Torre

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CHAPTER 1

INTRODUCTION

In this report my topic will be digital music distribution and how it affects artists, record companies, retailers, and consumer behavior. Digital music distribution is the distribution of music in MP3 and various other online formats. I will be addressing two questions in this research. The first is “How is digital music distribution affecting the music industry?”. I will then pursue related questions by researching how artists, record labels, retail stores, and consumers are either benefiting from digital music distribution or if it is affecting them negatively. The second question is, “In what way does the piracy industry affect the digital music industry?” From the second question I will research how the piracy industry is affecting artists, record labels, retail and online sales, and consumers.

I will address these proposed questions ” by doing a case study on how these issues affect a independent artist and a major artist. From there I will perform another case study on how these issues affect an independent label and major label. I will research the effect these issues have on physical sales, by comparing and contrasting with digital sales figures. Last, I will research consumer behavior on how they are affected by digital music distribution and how the piracy industry affects them.

I will address four key contexts in this research paper; artists, record

labels, retail and online stores, and consumer behavior. First I will address how digital music distribution affects two Hip-Hop musicians; independent artists Mac Miller and The Throne, comprised of major artists Jay-Z and Kanye West. I will address how the piracy industry has affected each of the proposed artists. I will explore how digital music distribution has affected the business models of independent label E1 Music (formerly known as Koch Records), and major label Interscope. I will then address how each label has dealt with the affects from the piracy industry. I will research how digital music distribution and the piracy industry affected the retailers and online retailers, by comparing and contrasting Recording Industry Association of America (RIAA) physical sales data and digital sales data figures from the past 5 years (2006-2010). The last issue I will address is how digital music distribution and the piracy industry has affected consumer behavior, what devices consumers use to access their music, such as iPods and mobile devices, and how the piracy industry has affected their purchasing decisions. With digital music distribution there are always new developments that occur, I will research prospective data as well as retrospective data for my research.

I will conclude with results and final thoughts from all the case studies and answer the research questions; “How is digital music distribution affecting the music industry?” and “In what way does the piracy industry affect the digital music industry?”

History of Digital Music Distribution

Digital music distribution originated in the late 1990s with the popularity of

unauthorized file sharing. Music downloading began a proficient way of sharing music files with peers. File sharing communities began to emerge on sites such as MP3.com and were used for uploading songs and allowing other peers to download the music they wanted. This method soon reached the popular peer to peer (P2P) site, Napster, created by Shawn Fanning in the fall of 1999. "Files could now be exchanged directly between users rather than passing through a centralized intermediary, while centralized index of available content gave users an efficient way of finding music", said Fanning. (Klym, 2005) The music obtained through Napster was considered illegal distribution of copyrighted material, or piracy. Piracy is the unauthorized reproduction or use of a copyrighted book, recording, television program, patented invention, trademarked product, etc. Napster was forced to shut down within a few weeks of it being active by the Recording Industry Association of America (RIAA). There were unauthorized MP3s on the site and Napster was held responsible for piracy.

Demand for online music began to grow and soon more peer to peer networks began to emerge. These sites, such as Limewire and KaZaA, were different in how they found a way to dodge a legal attack by claiming they did not manage the content that was being shared on their sites. Music wasn't the only media being shared on these sites, movies and software programs were being shared as well. The Recording Industry Association of America (RIAA) and Motion Picture Industry tried to sue KaZaA and other sites, but in 2003 the courts ruled that the sites were neither illegal nor responsible for the content that was being shared on their sites. In later years, many cases with different sites began

to emerge, and there will always be black market sites that will allow access for users to gain free content and organizations such as the RIAA will try to argue cases as to why using these sites is piracy. Piracy has become its own industry where many individuals are gaining profit from selling reproductions of music, movies, and other software.

I will now turn attention to legal online music distribution sites. The most popular out of them all would be iTunes created by the late Steve Jobs, but he was not the first to create a music online distribution site. The first idea was launched in 1993 by Rob Lord, Jeff Patterson, and Jon Luini from University of California, founded the Internet Underground Music Archive (IUMA). Later in 1998 Ivan J. Parron, president of a web development company called Internet Marketing Consultants Inc., founded and launched Ritmoteca.com as one of the online music stores business models. Ritmoteca.com allowed users to preview the music for 30 seconds and purchase a single song for 99 cents and whole albums for \$9.99, in which the consumer downloaded MP3 formats and then would later burn into a blank CD. Ritmoteca.com later parlayed distribution deals from record labels such as Universal Music Group, Sony Music Entertainment, Bertelsmann Music Group, and Warner Music Group. These record labels held distribution rights for major artists such as U2, Madonna, Jay-Z, and Britney Spears. Major record labels tried to launch their own services so they could have direct control over the costs. Sony Music Entertainment's services failed because they distributed single songs for \$3.50 and consumers found their site very difficult to navigate through. After a consumer paid \$3.50 for a single song,

it was later discovered that the song was actually rented instead of being purchased, because the file would expire during a certain amount of time. Record companies tried to merge such as Universal Music Group teaming up with Sony Music Entertainment creating Duet, later called pressplay but still failed because of high prices, limitations on downloading songs, and the rise of peer to peer networks. Listen.com (now Rhapsody), eMusic, and Cductive distributed songs from independent music labels and independent artists.

The music industry was failing because of lack of CD sales and online piracy site. The problem was clear, but a solution would require a major paradigm shift. Major labels had to come up with new ideas about pricing and promotions that would appeal to an audience to make them purchase music that they were illegally downloading. Apple co-founder, chairman, and chief executive officer Steve Jobs emerged with an idea in 2001 that would later save the music industry with the introduction of iTunes, iTunes officially launched in 2003. iTunes is a media player computer program, used for playing, downloading, saving, and organizing digital music, video files, and multimedia applications on desktop or laptop computers. One of the key features of purchasing music through iTunes was having access to all your music in one program and being able to carry around your music on iPods, as well as being able to burn the songs or albums on to a compact disc. Steve Jobs proposed to sell single songs for 99 cents which would be a standard price. He eventually negotiated and acquired licensing from all major labels.

“If copyright dies, if patents die, if the protection of intellectual property is

eroded, then people will stop investing. That hurts everyone. People need to have the incentive that if they invest and succeed, they can make a fair profit. Otherwise, they'll stop investing. But on another level entirely, it's just wrong to steal. Or, let's put it another way: it is corrosive to one's character to steal. We want to provide a legal alternative", said Steve Jobs (CBSNews, 2009)

Contemporary Period

From this chapter I will now move into the next chapter to explore what other scholars have researched and concluded with similar issues of how digital music distribution affected the music industry and how the piracy industry has affected the digital music industry . The additional chapters after chapter 2 will begin exploring my own research, case studies, and conclusions.

CHAPTER 2

LITERATURE REVIEW

In this article “Pay What You Like, No Really” the American Associated Press believes that the music industry did not adjust fast enough with the changes to its structure. They believe that a change to the copyright system that is now in effect could add benefits to the music industry and the United States economy. They broke down the process of who gets compensated in the copyright of a particular song and how record labels distribute the music. Artist may not get their fair share of royalties because the average 10-15% of the compact discs is given away for free to certain retailers, promo uses, and to radio stations. Once the CDs are sold for high prices, consumers will begin to seek other alternatives for acquiring their music. (American Associated Press, 2009)

The author argues that illegal downloading does not threaten the artist but the music companies. From prior research I personally found out since major labels have trouble finding solutions to this issue they take more away from the artist such as copyrights, royalties, and creating newly designed “360” deals which has the label gaining profit from everything an artist does such as performances and touring.

The article “The Day the (Digital) Music Died: Bridgeport, Sampling Infringement, and a Proposed Middle Ground” focuses on Disc Jockey Danger-

mouse's sampling of artist Jay-Z's and The Beatles' compositions. The author's claim to digital music dying is simply because no label was able to profit for this illegal mixing between Jay-Z's Black Album and The Beatles' Grey Album creating "The Grey Album" which was available on the internet for free. Artists and DJs offer free music on the internet on daily basis and sometimes companies battling piracy are not able to win due to material being giving away for free. For example if an artist gives away his/her single for free through Twitter and later is available on iTunes for 99 cents, would that still be considered illegal if you download it for free from the artists' twitter page?

The grey album was also sold in local mom and pops record stores but was harder to keep up with inventory because it was not distributed through a label but through CDs pressed up by DJ Danger-mouse. EMI sent cease and desist letters asking the record shops to destroy all copies of the physical CDs but it is still available for download. This article was informative because if all artists take matters into their own hands and give music away for free, that can potentially be a threat and end to major labels.

The article "Issues and challenges in securing interoperability of DRM systems in the digital music market" focuses on issues being brought against iTunes for not giving FairPlay on digital rights management (DRM). Consumers are only allowed to access iTunes under their personal account from 5 computers at a time, and you can only upload purchased music to an iPod, iPhone, or iPad, unless music is downloaded to a compact disc as backup. Apple does not license its digital rights management to third party users. Apple

has certain song formats they use for their iTunes software such as advanced audio code (AAC) and MP3, formats like WMA will not be imported in to iTunes nor iPods. (George, Chandak, 2006)

This article discusses the different formats online retailers use to distribute the music they sell. Companies like iTunes aim to be more exclusive than their competitors by making some of their products compatible only with other Apple products, which can be a smart business strategy.

The article “Digital Music: Educational Issues” focuses on students learning about the negatives affects on file sharing sites such as Napster and the suit filed against the rock band Metallica. The author, J. Faust, gives a brief summary on the start of Napster and its original intention of allowing a user to download music from another user’s computer. More sites began to appear that were similar to Napster and served the same functions using MP3 format which made it very quick (depending on a user’s internet speed) to download songs.

There were many legal debates on whether this was legal or not, and it was later deemed illegal and Napster was eventually shutdown. One argument was that if copyrighted music was downloaded for commercial or profit making purposes then it was legal, but if used for noncommercial purposes than it was fair use. (Faust, 2001)

The article “Digital Music Revenues Projected To Reach \$20 Billion By 2015” focuses predictions of where digital music revenue will be in the year of 2015 based off results from 2011. (Savitz, 2011) Digital music revenue is predicted to grow 20% because of free internet radio services such as Pandora

and GrooveShark. Since these subscriptions are rising they feel once a listener hears their favorite artist enough they will buy the music because of the free promotion and links to sites like iTunes and Google where they can buy their music.

Savitz believes that all free music is not illegal music and that free music that internet radio stations play should be maximized. There are multiple ways to benefit from free music, especially during an era where major artists give away their music and singles for free to keep up their “buzz” and popularity in the music industry.

The article “Digital Music May Get Convenient Real Soon” focuses on another benefit added to those whom download their music through iTunes. (Stone and Fixmer, 2011) Online music distribution outlets such as iPod are compared to a Kindle’s capability to back up downloaded text to a cloud, with servers at Amazon and Barnes & Nobles, for instance consumers that are worried about losing all their music if bought on iTunes due to PC crashes or iPod/iPhone damage don’t have to worry anymore. Music companies have been searching for ways to back up music data in digital locker rooms. Apple has taken a step ahead by opening iCloud and starting the process quicker than other outlets such as Amazon and Google.

The article “Digital Music and Online Sharing: Software Piracy 2.0” focuses on online piracy and ways that were attempted on preventing this issue. (Bhattacharjee, Gopal, and Sanders, 2011) This article discusses how the increasing price of compact disc is having a strong affect on the rise of online

piracy. I worked a retail job at F.Y.E. record store in 1999, when the average CD price was \$18.99. As the years went by, stores lowered CD prices, became smaller, or closed down. During this time I notice the increased popularity of buying burned CD from individuals selling them for \$5.

The article also indicated that individuals with lower incomes are more willing to pirate than spend \$10-15 on a CD with new music they haven't heard yet. This is one reason why iTunes become so popular, because consumers can sample the music before it is purchased. Although some retailers such as F.Y.E. eventually installed devices in their retail locations that allowed consumers to sample some of the music before purchasing it.

The article "Alternate Distribution Strategies For Digital Music" focuses on various strategies of distributing digital music. This article introduces the three major participants for digitally distributing music which are the creators or artists, record companies, and retailers. (Premkumar, 2003) An idea called Record Company-Retailer-Customer strategy was introduced to have a retail location or kiosk digitally download particular songs a consumer may want and create their CD personally for them. Consumers would have to invest much time into listening and choosing the particular songs they wanted and the retailer needed high speed internet for downloading times. This idea failed because customers were able to can do this from the convenience of their own home.

Other various strategies for digital distribution were Record Company-intermediary-customer which allowed customers to use single sites to acquire all their downloads, like a one-stop-shop site like Amazon. Record Company-

Customer by passes retailers and allows a consumer to download music from the record company or artists' site. The Artist-Customer buys directly from the website of an independent artist with no label. (Premkumar, 2003)

The article "99 Cents per Song: A Fair Price for Digital Music? The Effects of Music Industry Strategies to Raise the Willingness to Pay by P2P Users", covers worldwide consumer preference for purchasing digital music online. Peer-to-peer (P2P) allows users to share their purchased amongst their peers without each individual buying their music separately. Music companies are trying to reduce the peer-to-peer file sharing and trying to increase individual consumption. Some users in Germany felt that the music industry was overcharging consumers and wanted to oppose the music industry. To combat these issues music companies invested in education programs that increased the awareness of buying music legally, and how piracy hurts their favorite artists.

Since P2P is viewed as dishonest behavior, music companies have come up with consequences for those who decided to file share. Legal action will be taken on those who file share, and music companies expect that more consumers will be willing to buy music. Another study shows that the individual acts selfishly only concerned about their own payoffs. That means that they are not sensitive to how sharing music is affecting others as long as it's not affecting them. (Mazar, Ariely, 2006) Most consumers believe that artists and music companies are rich and it won't affect them by sharing their files with their peers.

Optimistic critics have usually asserted that new technologies make it possible for good artists to rise to the top. (Sargent, 2009) It is more complicated

than that. When local musicians participate in music festivals, they often do not share revenue. Photographers and videographers are there to film them, but those revenues are not shared with the artists. Furthermore, few artists are able to cultivate a following beyond the social networking and other activities they have participated in. There is also the problem of authenticity, some local artists have strong followings outside of their hometown, but it is difficult for them to reconcile this because they are not physically there. Artists feel it is important to have a strong home following, and it seems like moving to a place where they may have more support would be the easy route. This article addresses how experimental noise artists and “street” hip-hop artists each illuminate the power of file sharing and SNS to give musicians access to audiences in situations where local audiences and recognition are limited. This allows a musician to create a core and loyal fan base by offering them free music.

In 2004, Microsoft announced their first forays into creating a phone that would integrate audio and video (Gordan 2005). This is a good point of reference, because it seems to be the launching point for the popularity of social media and the increased ventures of musicians into the internet. At the time of the article, Gordan notes that artists were licensing not just music for internet distribution, but ringtones and music in videogames and websites. Forms of music promotion were expanding.

The authors in the “Does sampling influence customers in online retailing of digital music article” focuses on thirty second samples of music on online retailer sites. The authors used Amazon’s website to determine which method

was more effective with consumer behavior in making purchases by sampling the music for thirty seconds, or reading the reviews from prior consumers. The authors found that consumers that were able to sample the music had a higher rate of purchasing the music than those reading reviews. This article explored consumer behavior and what would more likely make a consumer want to purchase a song. The obvious answer was the consumer being able to listen to the content themselves to gain a better liking for the songs. Reviews helps consumers in an environment where they couldn't listen to the music, so they could read the songs reviews and if they were mostly positive it encouraged them to hear the song and if they liked it they would purchase it.

The article focuses on Spotify creator, Daniel Ek, and how Spotify was promoted on social networking sites such as Facebook. Individuals shared Spotify links of their favorite music on social networking sites, redirecting consumers away from piracy, with Spotify gaining revenue from streaming services. Daniel Ek was inspired by Napster, and in the future he hopes Spotify will be able to compete with iTunes. Spotify, unlike iTunes, lets a consumer be able to listen to the full song rather than a thirty second clip. This article discusses new ways of battling piracy and allowing consumers to go straight to the source to hear and purchase their music.

Interscope Record's artist Eminem has become the first artist to sell one million copies of his album in online music distribution. "Recovery selling one million digital albums is an incredible achievement by an incredible artist" said Interscope Records' Vice Chairman Steve Berman. (PR, 2011) This article

discusses how digital music is affecting the music industry and showing the success rate of it. Eminem has been successful throughout his entire music career and uses digital music to sell more records, elevating the popularity of online distribution, this is a wakeup call for record companies to begin investing more money into online retailers and online promotions.

The article “Record Sales Still Slipping; Digital Sales Continue Climbing” focuses on the rise of digital music distribution. Data accessed from 2006 to 2007 shows growth in digital music distribution and how independent labels and artists should pay attention to the rising trends. This article criticizes digital music distribution because content providers claim they are not fully compensated for their works. PricewaterCoopers predicted a sales decrease in international music, but revenues were overtaken in 2011 by online music distribution. Part of my research is comparing physical sales figures and online sales figures showing how digital music distribution is affecting the music industry. Research provided in the article suggests that online sales percentages are rising and not stopping anytime soon.

I chose the “Eminem sues Universal over digital royalties” article to show that there are some negative outlooks on digital music distribution. (Symmes, 2009) Prior to this I used “Eminem Sets New Record With One Million in Digital Albums Sales of His 2010 Album Recovery” article by PR Newswire to show how Eminem was the first artist to sell one million albums using online music distribution (which was after these issues), but he is using parent label Universal Music Group because of unpaid digital royalties. The article states how artists’

contracts that were dated before the digital era did not include information about digital music distribution. Eminem's lawyers argued that digital music distribution should still fall under "licensing" agreements since his music was licensed to be used by Steve Job's iTunes.

CHAPTER 3

INDEPENDENT AND MAJOR ARTISTS CASE STUDY

Mac Miller

I will now address the first musician for my case study and give a brief description of Malcolm McCormick, also known as Most Dope and Easy Mac, but better known as Mac Miller. Mac Miller is known as an internet sensation with 1.2 million followers on Twitter. Mac Miller was born on January 19, 1992 in Pittsburgh, Pennsylvania and has been active in the music industry since 2007. He began his music career as part of a Hip-Hop duo group called “The Ill Spoken” along with his partner named Beedie. I will now address the two research questions; “How is digital music distribution affecting the music industry?” and “In what way does the piracy industry effect the digital music industry?” in respect to how these questions affect an independent artist of the music industry.

Mac Miller began releasing free music in 2007 with his first mixtape release titled “But My Mackin’ Ain’t Easy” at the age of 16. A mixtape is a compilation of songs recorded in a specific order, traditionally onto a compact disc or audio cassette, but can now be accessed via the internet. It is underground material that is supposedly distributed for free, but some disc jockeys or bootleggers may make profits off the compilation of songs. Although

at this time Mac Miller was still part of the duo Hip-Hop group “The Ill Spoken”, Mac Miller still released solo material. “But My Mackin’ Ain’t Easy” mixtape does not have background information found on it, but Mac Miller fans praised it as a collector’s item because this was his first official release. This mixtape has been rereleased on a popular mixtape sharing site called Datpiff.com on January 20th, 2011 and has since gained nearly 84,000 views to his “But My Mackin’ Ain’t Easy” page, 22,000 streams, 13,000 downloads of the mixtape, and was rated 4 out of 5 stars. Streaming audio is a way of delivering sound without the need to download files of different audio formats.

The Ill Spoken’s only release as a duo, was in 2008 with the “How High” mixtape. The duo comprises of Mac Miller and long time friend Beedie. The “How High” mixtape was originally released for free on January 1st, 2008. The mixtape was promoted using social networking sites such as Myspace. Since the release of the mixtape, it became so popular that the group started gaining a loyal fan base, receiving nearly 27,000 views to their Myspace page. The duo eventually released the mixtape as an EP on the online music distribution site iTunes on September 12th, 2008 under an independent record company, East End Empire LLC. An EP is short for "extended play", a musical recording that contains more music than a single, but is too short to be qualified as a full album or LP (Long Play). The duo had to release “How High” as an EP because of copyright issues with songs that borrowed production from other’s artists. Often on mixtapes, artists use other musicians' production to write their own songs, but can’t legally be distributed. “How High” as an EP received very high ratings from

reviewers on iTunes who rated it 4.5 stars out of 5. The “How High” mixtape was added on to popular mixtape sharing site Datpiff.com on December 14th, 2008 and has received more than 150,000 views to the page, 17,000 streams, more than 7,000 downloads, and is rated at 5 out of 5 stars.

The “How High” mixtape and EP was a pivotal point within my research because this was Mac Miller’s first legitimate release via iTunes. This raises the question if the artist releases his/her music for free and later sell it on an online music distribution site, would that be considered piracy if a consumer downloads the free version? Mac Miller has released all of his music for free, except for mixtapes sold during Mac Miller’s performances and tours. The EP does not hold the same amount of songs that are on the mixtape for copyright issues of other artists’ compositions, but the EP was released on iTunes September 12th, 2008, and a few months later on Datpiff.com on December 14th, 2008. There have been many artists other than Mac Miller that distributed their content the same way. Most artists use their mixtapes to gain popularity and once a song or songs become a hit, then the artist or label decides to make a profit from the songs.

The second solo mixtape release from Mac Miller was “The Jukebox: Prelude to Class Clown”, released on June 1st, 2009. At this point in time, Mac Miller was becoming an internet success and his numbers began to rise. His Datpiff.com page for “The Jukebox: Prelude to Class Clown” received some 500,000 views, 130,000 streams, 163,000 downloads, and was rated 5 out of 5 stars. With the success of the second mixtape, he quickly followed up with his

third release “The High Life”, released on December 16th, 2009. Mac Miller utilized his presence on social networking sites such as Myspace, Facebook, and Twitter to become a notable artist because of the way he interacts with his fans. According to Datpiff.com “The High Life” mixtape received 763,000 views, 191,000 streams, 239,000 downloads, and was rated 5 out of 5 stars. “The High Life” mixtape was Mac Miller’s last release as an unsigned artist, and for his numbers to be steadily rising proved that he had star quality. His YouTube page has gained over 500,000 views on his videos by this point in time in 2009.

In early 2010 Mac Miller signed with independent label Rostrum Records, located in his hometown, where he already had prior relationships with artists on the label and the president of the label, Benjy Grinberg. When asked about Mac Miller’s internet presence, Grinberg said, “It’s just insane how fast it’s been growing. He went from 30,000 Facebook friends last year to 1.2 million this year.” (Grinberg, 2011) On August 13th, 2010, Miller released his fourth mixtape to retain buzz until his first full length LP would come out. The title “K.I.D.S (Kickin’ Incredibly Dope Shit)”, was inspired by the film *Kids* released in 1995. The mixtape received great reviews with 1.4 million views, and more than 400,000 streams, 400,000 downloads, and 5 out of 5 stars rating. His “Incredibly Dope Tour” was very successful and every venue was sold out. (Grinberg, 2011) Fans were unsure if “K.I.D.S” was originally meant to be a full length album, but it was free content distributed on the net that helped him secure his record deal and first sold out tour. Artists who give away free music can lead to a better relationship with their fans. Mac Miller also gained his first gold selling single

“Knock Knock” which peaked at number eighty eight on the Billboard Chart. (Billboard, 2012) Mac Miller’s “Knock Knock” was also distributed on online distribution sites such as iTunes. This data reflects the loyalty of his fan base as well, they received a free song via mixtape and still decided to purchase the record when it was later sold on iTunes. Other artists claim to have not made money off their album sales only profiting from their tours and merchandising. Multiplatform artist Drake has said that “It’s tough for me to put a mixtape out there just based off the fact that, not only that it’s free, but to be honest to you, I don’t really make money off my albums.” (Horowitz, 2011)

Mac Miller’s fifth mixtape, titled “Best Day Ever”, was released on March 11th, 2011. Mac Miller received over 31,000 views from live video stream moments before the mixtape was released. The mixtape received 1.8 million views, 800,000 streams, and more than 500,000 downloads, and 5 out of 5 stars ratings according to Datpiff.com. Four videos were created from “Best Day Ever”, and the mixtape generated another gold record called “Donald Trump”. The Donald Trump video received over 30 million views on YouTube and created trends on social networking site Twitter, when Donald Trump acknowledged the song and tweeted, “Who wouldn’t be flattered?”. “Donald Trump” was released on iTunes on May 17th 2011 and has been certified gold by billboard.com and peaked at number seventy-five on the US charts. Mac Miller’s loyal fan base purchased a song that was given to them free months prior to the album. Mac Miller released his first solo EP called “On and On and Beyond” during the same month he released his mixtape. This EP was exclusively released on online

distribution sites on March 29th, 2011 and contained content from his prior mixtapes. "On and On and Beyond" charted at number fifty-five on the Billboard chart and first week sales tallied up to 13,198, fans purchased small compilation of old mixtape songs.

Mac Miller is a frequent user of the popular social networking site Twitter. After he hit one million followers, he released his sixth mixtape called "I Love Life, Thank You" in October of 2011. This mixtape did not receive as much critical acclaim as its predecessor receiving only 300,000 views, 200,000 streams, 100,000 downloads, and 5 out of 5 stars rating on datpiff.com.

His first LP via Rostrum Records called "Blue Slide Park", was a huge success, however. "Blue Slide Park" was released on November 8th, 2011 and became the first independent album to reach number one in the national sales chart in over fifteen years. The last independent Hip-Hop album to reach number one was The Dogg Pound with their debut "Dogg Food" released in 1998. Mac Miller's first week sales added up to 144, 487 copies with 76% (109,000) of the sales being comprised of digital sales. "Blue Slide Park" digital version was distributed by INgrooves and Fontana Distribution distributed the physical release. "Blue Slide Park" peaked at number one on Billboard's following; top 200 chart, top R&B/Hip-Hop Albums, top rap albums, and independent albums chart. The single "Frick Park Market" accounted for 150,000 digital single sales prior to the album's release, the music video on youtube gained over 17 million views, and peaked at 60 on Billboard's top 100 chart. The single was released months before the album gaining high sales digitally and was stepping stone for

what later became a successful album. “Rostrum (Records) and Mac (Miller) are proof that a digitally-focused independent effort works in today’s dynamic music marketplace, by engaging fans directly and maximizing availability to all consumers via our global online retail network”, stated Dave Zierler, EVP & General Manager, INgrooves. For Fontana Distribution, the album’s success showed how record labels and independents can increase their distribution by using all mediums.

To conclude this case study, Miller recognizes how the industry works in today’s times. He realized that creating a strong brand and creating a strong internet following would reduce the impact of piracy. To answer my first question proposed, “How is digital music distribution affecting the music industry?”, as stated above Mac Miller’s first LP accounted for 76% digital sales for his first week sales. He recognized early in his career the benefits of using the internet and creating free mixtape compilations to develop a loyal fan base. Mac Miller's strong debut is a triumph of social networking, with his combined 2.7 million followers on Twitter, Facebook and Myspace.

Mac Miller utilizing the internet to share his music leads into the question, “In what way does the piracy industry affect the digital music industry?”. There is no strategy to fully prevent piracy. Mac Miller’s career was built on giving away free music, and he understands what it takes to become successful in the high demand for content and internet driven music industry today. Like many artists, Mac Miller has gained much success from his touring and merchandising. Artists do not receive much payoff from their albums, so his giving away free music from

the beginning did not hurt his career. With the aid of mixtape websites, blogs, and file sharing sites such as hulkshare, zshare, sendspace etc., Mac Miller has distributed his music to the masses. And yet, songs he has given away for free, were later sold on iTunes, with hundreds of thousands of downloads.

The research above leads into my question, “If the artist releases his/her music for free and later sell it on an online music distribution site, would that be considered piracy if a consumer downloads the free version?” Once a song is circulating around the internet for free, it is hard to stop it. Artists sometimes give the fans the option to purchase or download music for free. Record labels may not agree with this strategy, but if the product is desirable consumers will purchase. Mac Miller’s career was built on free music. While it is impossible to say that piracy has had little effect, his career is based on the strength of his brand. An independent artist’s career is built off his hard work. Before the digital era, an artist would have to distribute his own music to gain awareness for him or herself. I will now move on to a major artist’s perspective.

The Throne (Kanye West and Jay-Z)

I will now address the second set of musicians for my case study and give a brief description of The Throne, which comprises of major artists Shawn Corey Carter, better known as Jay-Z, and Kanye Omari West, who goes by Kanye West. As the duo group they belong to Roc-A-Fella Records, Roc Nation, and Def Jam Recordings. I will address this case study in chronological order.

Jay-Z was born December 4th, 1969 in Brooklyn, New York and his music career began in 1994. He is known as one of the most financially successful Hip-

Hop artists and entrepreneurs in America. Jay-Z's estimated sales are over 50 million records worldwide. Rolling Stone magazine features two of Jay-Z's albums as the 500 greatest albums of all time. Jay-Z, along with business partners Damon Dash and Kareem Biggs, created an independent label called Roc-A-Fella Records in 1995 and acquired a deal for distribution with Priority Records.

Jay-Z began his career before the digital music era, his first album called "Reasonable Doubt" was released physically on June 1st, 1996. His album received positive reviews and peaked at number 23 on the Billboard charts. "Reasonable Doubt" was certified a gold record (selling over 500,000 units) on September 18th, 1996, and rose to a platinum selling record (selling over 1 million units) on February 7th, 2002 (RIAA). After the success of his first album Jay-Z acquired a major distribution deal with Def Jam in 1997, releasing his follow up titled "In My Lifetime, Vol. 1" in November of 1997, and like its predecessor it reached gold and platinum status. (RIAA)

Jay-Z was starting to become a household name and in between the releases of his third and fourth albums he began having his first issues with piracy. His third album titled "Vol. 2...Hard Knock Life" released in September of 1998 spawned a big hit with his "Hard Knock Life" single and his album went on to sell 5 million records domestically making him 5 times platinum. (RIAA) "Back in the 1990s, before file-sharing became the real disrupter in the music industry, bootlegging was the worst threat." (Carter, 2010) As Jay-Z stated he began dealing with piracy/bootlegging issues and began to feel the affect. He became

very paranoid about the individuals he surrounded himself with because he did not know how his music was being bootlegged. Jay-Z considered individuals bootlegging his album to be armed robbery. Unlike Mac Miller, Jay-Z was not used to giving away free music and utilizing the strengths of the internet. Jay-Z later embraced bootlegging because of sympathy he felt towards his fans that may not have been able to afford his albums. He gave away hundreds of thousands of his albums. Jay-Z also acknowledged that it was rare that albums would be bootlegged way before its actual release date. "It's almost quaint to think about that now, since digital pirating accounts for many times as many copies as any bootlegger ever managed to get out on the streets." (Carter, 2010)

Jay-Z's 4th album, "Vol. 3...Life and Times of S. Carter", was leaked a month before its release in December of 1999. Jay-Z accused Def Jam employees of piracy and even physically assaulted someone he suspected. Jay-Z dealt with suspected piracy. "Vol. 3...Life and Times of S. Carter" received great reception from his fans and went three times platinum in February of 2001. (RIAA)

In October of 2000, Jay-Z released his fifth album titled "The Dynasty: Roc La Familia" and was yet another successful effort debuting at number one on the Billboard top 200 and top R&B/Hip-Hop albums chart. Two months later Jay-Z's fifth effort was certified 2x platinum. (RIAA) "I just wanna love you (Give it me)" was one of Jay-Z's biggest singles debuting at the 11th spot on the Billboard's Hot 100 chart. Jay-Z's sixth album "The Blueprint" was released on a tragic date, September 11th, 2001. Though the album was leaked weeks before of its

release date. "The Blueprint" was still a success reaching number 1 on the Billboard top 200 chart. Jay-Z has a large fan base in New York, where he is from, and with the events of the 9/11 attacks consumers didn't fear terrorism and still purchased Jay-Z's albums. Jay-Z began his "Blueprint Lounge Tour" in Chicago because of ground zero in New York and gave the profits relief organizations. As of 2012 "The Blueprint" sold more than 2.7 million copies. (Grein, 2012) Jay-Z's seventh solo effort "The Blueprint 2: The Gift & The Curse" was released on November of 2002. The seventh album debuted at number 1 on Billboard top 200 chart and top R&B/Hip-Hop albums chart, and sold 545,000 copies its first week of release. As of 2012 "The Blueprint 2: The Gift & The Curse" was very successful selling more than 2 million albums.

2003 and the following years became significant for the music industry as Steve Jobs introduced iTunes: Kanye West makes his artist debut in 2004, the RIAA began charting digital releases from Jay-Z and Kanye West, and the digital era began. Jay-Z's eighth solo release "The Black Album" was released in November 2003 and was marketed as his last album. "The Black Album" debuted at number 1 on the Billboards top 200 chart and sold over 400,000 copies on its first week release. Jay-Z's hit single "Dirt Off Your Shoulder" became a gold selling record digitally on October 2004 almost a year after its release and was also certified gold as an mastertone (ringtone) on June 2006. (RIAA) "The Black Album" was also certified 3x platinum on August 2005.

A controversial issue came into play when a rising disc jockey by the name of DJ Danger Mouse released an unauthorized copy of an a cappella

version of Jay-Z's lyrics mixed with The Beatles instrumentals and voice samples. Jay-Z commercially released an a cappella version of "The Black Album" in which gave producers the chance to create their own productions to go with Jay-Z's lyrics. DJ Danger Mouse never obtained permission to use The Beatles' compositions to mash together with Jay-Z's lyrics. Copies of this mix-tape were released to certain music stores and quickly EMI group Ltd. (copyright holders of The Beatles) ordered DJ Danger Mouse and retailers to cease distribution. "The Grey Album" quickly became popular on the internet and distributed on over 170 file sharing sites and over 100,000 copies were downloaded in one day called "Grey Tuesday" to rebel against EMI. (Rimmer, 2007) EMI tried to stop all distribution of "The Grey Album", but was not able to stop it because sampling music was under fair use laws as long as the mix-tape was not sold, but given away for free. "The tale of The Grey Album and Grey Tuesday offers a rich case study for the examination of a wide variety of contemporary cultural issues within the context of the 'copyright wars' remix culture and the age of the digital network." stated cultural critic Sam Howard-Spink. (Rimmer, 2007) The release of "The Grey Album" helped restructure the music industry by making the mix-tape era popular, gaining recognition for free music by receiving positive reviews from critics.

"The Grey Album" controversies help answer the proposed research questions, "How is digital music distribution affecting the music industry?" and "In what way does the piracy industry affect the digital music industry?". As stated by Rimmer the remix culture introduced a new form of distributing mix-tapes,

shortly after “The Grey Albums” release many other producers began mashing their productions with Jay-Z’s vocals and sharing them on the internet. The digital era changed the music industry and music industries were not happy that their artists’ music can be sampled under fair use laws, and could not be associated with piracy.

Jay-Z of course welcomed the idea with this quote, “I think it was a really strong album (The Grey Album). I champion any form of creativity, and that was a genius idea to do it. And it sparked so many others like it. I was honored to be on quote-unquote the same song with the Beatles” (Gross, 2010)

Sir Paul McCartney from The Beatles offered a statement on the project as well, “It was really cool when hip-hop started, you would hear references in lyrics, you always felt honored. It’s exactly what we did in the beginning, introducing black soul music to a mass white audience. It’s come full circle. It’s, well, cool. When you hear a riff similar to your own, your first feeling is ‘rip-off.’ After you’ve got over it you think, “Look at that, someone’s noticed that riff.” (Ace, 2011)

Kanye West was born June 8th, 1977 in Atlanta, Georgia but moved to Chicago, Illinois at a young age and his music career began in 1996. Before Kanye West became an artist he was an in-house producer for Roc-A-Fella Records and signed to Def Jam records as an artist. His productions for Jay-Z’s “The Blueprint” catapulted him to superstardom. Kanye West’s career as an artist began in 2002 and he has become a prominent figure in the Hip-Hop culture.

Kanye West's first album "The College Dropout" was released on February 2004. His album debuted at number 2 on Billboard's top 200 charts, number 1 on top R&B/HipHop albums, number 1 on top rap albums, and he sold nearly 441,000 records his first week. "The College Dropout" gained two digitally gold singles from this album called "Jesus Walks" and "All Falls Down". (RIAA) I would like to note during this research that RIAA provides information on gold & platinum plus records, the above singles were released on physical formats but did not chart as high as the digital, thus why no data could be found on it at this time. By 2009, Kanye's 1st album went 3x platinum. (Grein, 2009) *Rolling Stone* magazine and *Time* magazine both praised West's first effort both calling it one of the greatest albums of our generation.

Kanye West's second album was titled "Late Registration" and was released on August 2005. The album debuted at number one on the Billboard top 200 chart, top R&B/Hip-Hop albums, top rap albums, and sold 860,000 copies in its first week. By February 2006 "Late Registration" was 3x Platinum and he gained his first digitally platinum single "Gold Digger" on February 2006. "Gold Digger" also spawned a platinum mastertone plaque on June 2006. "Diamonds from Sierra Leone" was declared digitally gold on December 2005 and "Heard 'Em Say" became a digital gold record on February 2006. (RIAA) Kanye West was receiving great success from his physical format and growing digital formats.

Jay-Z releases his ninth and comeback album titled "Kingdom Come" on November 2006 and this would be his first album that was released in digital

format as well as compact disc. "Kingdom Come" reached number one on the Billboard top 200 charts, top R&B/Hip-Hop albums, and sold nearly 680,000 in its first week. At the time this was promoted as Jay-Z's comeback album from retirement after his "Black Album," this made "Kingdom Come" his highest selling 1st sales week. Jay-Z's 9th album was certified 2x Platinum on December 2006. Jay-Z did not have any huge digital success from this album separately.

Kanye West's third release was titled "Graduation" and released on September 2007. Interesting fact to note on this data is that Kanye West's third effort was promoted in a sells battle against rapper 50 Cent's "Curtis" album. Promotion was stronger for "Graduation" making this album his biggest 1st week sales album to date by debuting at number one on the Billboard top 200 charts, top R&B/Hip-Hop albums, top rap albums, and sold nearly a platinum record its first week with nearly 957,000 copies sold. "Graduation" reached double platinum status after a month of its release on October 2007. Kanye West digitally earned platinum status for his single "Good Life" on August 2008 and his single "Stronger" was declared 3x Platinum on December 2008. (RIAA)

Jay-Z released his tenth solo album titled "American Gangster" on November 6th, 2007. "American Gangster" was originally supposed to be a soundtrack for the Denzel Washington film *American Gangster* inspired by the life of Frank Lucas. Promotion for this album coincided with the film and was number one on Billboard top 200 charts, top R&B/HipHop albums, top Rap albums, and sold over 400,000 during its first week sales. Jay-Z at this point of his career was tied with Elvis Presley for the amount of number one albums upon

its release. This was a controversial album as well because Jay-Z personally requested that “American Gangster” not be sold on iTunes. He felt he wanted to keep the movies “melodramatic vibe” and did not want fans to download individual songs from the album but he wanted them to hear it in its entirety. (Adaso, 2012) The album was still listed on iTunes but when fans tried to download the album they would receive an error message, but the album was still digitally distributed on Rhapsody and Amazon but fans could only buy the full album. Since Jay-Z decided not to use iTunes, his album only became platinum on December 2007 and had no individual charted singles resulting from his sales for his tenth effort which were not as high compared to his prior releases, because of excluding iTunes.

Kanye West’s fourth album was titled “808s & Heartbreak” and was released on November 2008. Kanye West’s fourth effort was different from his previous works; “808s & Heartbreak” was an experimental synthpop, electronica, R&B, and electropop album with him singing using the auto-tune format rather than traditional Hip-Hop. The album debuted at number one on Billboard top 200 chart and top R&B/HipHop chart, was not charted on rap albums because of genre changes, and sold over 450,000 copies in his first week of release. “808s & Heartbreak” was certified platinum on January 2009. Kanye West received two digitally double platinum certifications for his singles “Love Lockdown” on April 2009 and “Heartless” on March 2009.

Jay-Z released his eleventh and last solo album to date titled “The Blueprint 3” on September 2009. At this point in Jay-Z’s career Roc-A-Fella

records is no longer existent, he has left Def Jam records, and started his own imprint with Live Nation and Atlantic Records called Roc Nation. Jay-Z has officially broken Elvis Presley's record having the most number one records upon first release with again achieving number one in Billboard top 200, top R&B/Hip-Hop albums, top rap albums, and sold over 470,000 copies during its first week of release. Jay-Z returned to the aid of iTunes for helping distributing his album. "The Blueprint 3" was certified platinum on November 2009. Jay-Z received two hit singles from this album "Empire State of Mind" becoming digitally 3x Platinum on April 2010 and on the same date "Run This Town" was digitally 2x Platinum.

Kanye West releases his fifth solo album and last solo album to date titled "My Beautiful Dark Twisted Fantasy" on November 2010. Kanye West returns to his Hip-Hop style on this album entering him back into the Billboard rap charts. Kanye West debuts at number one on Billboard's top 200 chart, top R&B/HipHop albums, and top rap albums; this was nearly a gold selling album during its first release with close to 500,000 copies. "My Beautiful Dark Twisted Fantasy" was certified platinum on January 11th, 2011 and received one hit single with "All of the Lights" digitally certified Platinum on December 2011. Kanye West embraced the giving away music free trend by promoting his upcoming album months before its release by starting Good Fridays - for 3 months until the release of his fifth album West released a free song every Friday to interact with his fans on social media sites.

Finally the last effort between the two rappers Jay-Z and Kanye West, calling themselves The Throne, released on August 8th, 2011, was their duet

album titled "Watch The Throne." "Watch The Throne" was the most significant album between the two rappers individually because they've found a way to combat online piracy. For the first time since the dawn of the digital age The Throne managed to prevent their album "Watch The Throne" from prematurely releasing before its release date on August 8th by making the album exclusively available on iTunes for one week. They chose to release the album only to iTunes because the album was kept at one source until the day they gave the album to iTunes. If they were to release the album to retail locations, the loss of one physical CD would cause a leak. With the album debuting at number one for Billboard top 200, top R&B/HipHop albums, top rap albums, and selling 436,000 copies via digital distribution it was a huge success. The following week the physical copy of the album was available exclusively at Best Buy until August 23rd, 2011, but caused controversy among the mom & pop record store outlets. The business strategy worked to prevent the album from prematurely leaking, but another issue was raised about the outsourcing of mom & pop record stores. "Watch The Throne" was certified platinum on September 2011 and spawned two hit singles; "Otis" became digitally gold on December 2011 and "Ni**as in Paris" was digitally certified double platinum on February 2012.

The data on "Watch The Throne" answers "how digital music distribution affected the music industry?" and "how has the piracy industry affected digital music distribution?" Jay-Z began his career post digital era and when Kanye West released his first album in 2004 he was already immune to the ways of piracy on the internet. Even though "Watch The Throne" did not leak prematurely

it still leaked after the album was released on iTunes. Battling online piracy is difficult, but the release of "Watch The Throne" was an attempt to prevent piracy. Jay-Z enduring the digital era changes made him aware of coming up with this business strategy of releasing his album on iTunes one week before a physical release. Jay-Z realized once his "Black Album" was mashed up by DJ Danger Mouse creating "The Grey Album", how important the internet was to an upcoming artist or producers' career hence making changes to the digital era. From this point I will now move into the next chapter further answering my research questions "How is digital music distribution affecting the music industry?" and "In what way does the piracy industry affect the digital music industry?", by researching how an independent label and an major label dealt with the issues.

CHAPTER 4

INDEPENDENT AND MAJOR LABEL CASE STUDY

E1 Music Case Study

Koch Records was founded by Michael Koch on June 1st, 1999 and served as an umbrella for Koch Entertainment. The company began as a small classical label in 1990, but in later years began to expand genres. On January 22nd, 2009, Koch Records was renamed E1 Music by parent company E1 Entertainment, Canuck Film and TV Company One Entertainment and consolidated all its operations in Canada, the U.K., Holland, and Belgium to become one of the world's leading independent companies. (Kelly, 2009) E1 Entertainment consists of television, films, music, and distribution. Founder Michael Koch and Koch executive Michael Rosenberg still oversee the United States. Film distribution and Koch became chief executive officer over E1 music that includes E1 Records and E1 Music Publishing, Koch Distribution in the United States is now E1 Entertainment Distribution U.S.

An independent label grants a recording artist a lot of creativity in their recording and promotional processes. Independent labels do not have as much financial backing as a major label, but they better understand how artists build their fan base and distribute their music. Most artists today understand how to utilize the internet to gain attention for their brands and music. Artists can

distribute their music from their personal websites, social networking sites, and even begin their own record label to distribute through major online music stores such as iTunes and Rhapsody. E1 Music understood the importance of online digital distribution before the era became popular. Vice President of Digital & Mobile and E1 Entertainment, William Crowley has improved E1 Music's digital music initiatives and has placed E1 in the forefront of mobile music. He helped pioneer the development of online and digital markets before joining E1 Music, "He (Crowley) launched the first online music store in 1989 on the CompuServe Mall and was a founding music executive for "Internet Music 1.0" startup Musicmaker.com in 1997." (Merlin, 2012) With his history E1 Music promoted him to Vice President on August 21st, 2007. E1 Music constantly pursues new strategies for independent music and video distributions, is a digital provider for all mediums, and is one of the few companies to offer DRM (Digital Rights Management) Free. DRM is a class of access control technologies that are used by hardware manufacturers, publishers, copyright holders and individuals with the intent to limit the use of digital content and devices after sale. It also helps fight copyright infringement online and help copyright holders maintain artistic control.

Former president of E1 Music and E1 Publishing, Bob Frank, acknowledged how social media growth helped the digital distribution era. In an interview discussing building a strong digital foundation, he responded, "The business model is going to be completely different in five years. It's going to be a whole new world. A lot of these social networking sites are going to be the

primary revenue generators in, perhaps 10 years. There are so many interesting dynamics taking place today.” (LeBlanc, 2008) Later in the interview Frank revealed how digital music distribution was growing from 2007 to 2008. In 2007 E1 music accounted 33% of revenue from digital distribution and during the course of the interview the percentage was raised to 45% of net income for the year of 2008. The data provided shows growth of digital distribution and potential growth in the new media division.

“Koch (E1 Music) has been a digital powerhouse recently earning platinum ringtone awards for both UNK and Jim Jones, and Jones' "We Fly High" was the first realtone from an independent to reach Number One on Billboard's Hot Ringmasters chart.” (CelebrityAccess MediaWire, 2007) This shows growth in digital distribution for independent labels.

Interscope Records Case Study

Interscope Records was founded by Jimmy Iovine and Ted Field in 1991, the parent company over Interscope is Universal Music Group and is one third of Interscope-Geffen-A&M. Ted Field also oversaw and founded Interscope Communications or Insterscope Interscope is a major record label that signed many popular acts to date such as; Eminem, Gwen Stefani, Madonna, Lady Gaga, Dr. Dre, 50 Cent, U2, and more. During the early 90s Interscope focused mainly on Hip-Hop and Rap acts, until a decade later when they began to sign acts of different genres.

Similar to an independent label, major labels look for artists that can provide their own original music, have a following, and have a core fan base.

Now that the digital age is upon us and artists can use the internet resourcefully to gain attention for themselves, major labels invest to take that artist nationally and globally. Major labels invest more money into their artists' promotion depending on the popularity of that particular act. Interscope Records under Universal Music Group struggled with piracy eating into revenues. Once Steve Jobs introduced iTunes in 2003, the music business structure changed. "Everybody was lost. The record labels were frozen. When he (Steve Jobs) came up with iTunes, it gave us a (legal) way to get the license ready to go online" said Jimmy Iovine. (Fortt, 2009) There were attempts from major record labels to sell music online such as Universal Music Group distributing music on Ritmoteca.com, but did not work as expected because the goal was to have consumers buy music and transfer their music to blank compact discs themselves. Universal Music Group tried teaming up with Sony Music Entertainment creating Duet, later called pressplay but still failed because of high prices, limitations on downloading songs, and the rise of peer to peer networks. Once iTunes was introduced, the revenue earned from digital music still did not make up for what was lost because of piracy.

The growth of digital music distribution was demonstrated on July 5th, 2011 when Interscope artist Eminem's album "Recovery" went platinum in just seventeen days. "The best-selling album of 2010 in the U.S. and the best-selling digital album of all-time, Recovery has now sold more than 5.7 million copies worldwide." (PR, 2011) Eminem signed with Interscope Records before the digital era, with no licensing information in his contract about digital music

distribution. After the digital era licensing music via online distribution was added to new recording artists' contracts. One of Interscope's most recent artists Lady Gaga has the second and fourth best selling digital single to date with number two being "Bad Romance" with 9.7 million digitally sold and number four "Telephone" with 7.4 million digitally sold. (IFIP, 2011)

Record Labels Stance Against Piracy

Both E1 Music and Interscope Records are partnered (Interscope) or distributed (E1 Music) via Universal Music Group and influenced by the music giants positions on piracy. Universal Music Group is a supporter of SOPA (Stop Online Piracy Act). SOPA is a bill that was introduced by U.S. Representative Lamar S. Smith to stop piracy with The Stop Online Piracy Act that was launched early in 2012. (Gross, 2011) The purpose of the bill was to end the online trafficking of copyrighted intellectual property and counterfeit goods. Record labels are in the business to make profits and will support organizations that are against stealing from their companies. Websites that share links to many pirated sites, such as Wikipedia, quickly created campaigns trying to stop the passing of the bill. Smaller websites and independent blogs would lose revenue because they often make use of piracy in order to make a profit. Many artists benefit from music sites and blog sites because it helps promote them as an artist and makes it easier to share their music with fans.

Data could not be found on exact digital sales percentage growth for Interscope Records as well as up-to-date digital sales percentage growth for E1 Music. This case study showed that digital music distribution indeed has

changed the whole music industry no matter if a label is independent or major. Major labels now seek talent that comes with a full package such as quality music, internet presence, and a following. As an independent label and business, E1 Music does not want its music stolen, but the majority of independent artists such as Mac Miller have used multiple source of giving away free music to gain awareness. Regulation of online distribution can negatively affect independent artists, as compared to established acts that do not distribute their music for free.

CHAPTER 5

COMPARING PHYSICAL SALES TO DIGITAL SALES

I will now compare physical sales to digital sales with charts and graphs with data provided by the Recording Industry Association of America (RIAA). The data collected was from the latest Year End Shipment statistics provided by the RIAA in 2010 and I will provide statistics from 2006 to 2010 and provide information on where digital distribution is headed by the year 2012. Digital music distribution entered RIAA charts in 2004 and began with a rise as physical copies remained the more desired platform for music. By 2005 digital music accounted for 9% of sales as physical was still dominant accounting for 91% of sales.

2006 Year End Shipments

Physical	2006 (in millions)	% 2005-2006
(Units Shipped)	614.9	-12.8%
(Dollar Value) CD	9,162.9	-12.9%
Music Video	23.1 451.0	-31.8% -25.1%
Other (Albums)	1.7 22.1	-61.6% -54.5%
Other (Singles)	2.9 15.4	-41.4% -36.3%

Physical	2006 (in millions)	% 2005-2006
Total Units	642.6	-14.2%
Total Value	9651.4	-13.8%
Total Retail Units	553.2	-12.8%
Total Retail Value	9,052.5	-13.6%
Digital	2006 (in millions)	% 2005-2006
Download Single	586.4	59.8%
	580.6	59.8%
Download Album	27.6	103.3%
	275.9	103.3%
Kiosk	1.4	89.5%
	1.9	96.2%
Music Video	9.9	434.3%
	19.7	434.2%
Total Units	625.3	63.2%
Total Value	878.0	74.4%
Mobile	315.3	85.5%
	774.5	83.7%
Subscription	1.7	27.6%
	206.2	38.2%

In 2006, digital music sales rose, accounting for 16% of sales that year as physical sales took a slow decline moving from 91% to 84% (see Figure 1 on page 60). The left column on the chart illustrates the amount of units shipped in millions, the figures on the top show units shipped and the figures on the bottom show the dollar value, and the right column on the chart shows the percentage change from the prior year. 2006 data of other albums accounts for cassettes and vinyls as some other singles section.

2007 Year End Shipments

Physical	2007 (in millions)	% 2006-2007
(Units Shipped)	511.1	-17.5%
(Dollar Value) CD	7,452.3	-20.5%
CD Single	2.6 12.2	51.5% 59.0%
Cassette	0.4 3.0	-41.2% -18.4%
LP/EP	1.3 22.9	36.6% 46.2%
Vinyl Single	0.6 4.0	-58.5% -59.6%
Music Video	27.5 484.9	18.6% 7.5%
DVD Audio	0.2 2.8	-42.1% -15.2%
SACD	0.2 3.6	-30.5% -34.2%
DVD Video	26.6 476.1	19.4% 7.5%
Total Units	543.9	-16.1%
Total Value	7,985.8	-19.1%
Total Retail Units	464.4	-16.9%
Total Retail Value	7,495.3	-19.1%

Digital	2007 (in millions)	% 2006-2007
Download Single	809.9 801.8	38.1% 38.1%
Download Album	42.5 424.9	103.3% 103.3%

Digital	2007 (in millions)	% 2006-2007
Kiosk	1.8 2.6	28.5% 38.1%
Music Video	14.2 28.2	43.0% 43.0%
Total Units Total Value	868.4 1,257.5	38.9% 43.2%
Mobile	361.0 878.9	14.6% 13.6%
Subscription	1.8 200.9	0.7% -2.6%
Digital Performance Royalties	47.0	49.2%

In 2007, digital rose to 23% from the previous 16% as physical sales declined from 84% to 77% (see Figure 2 on page 60). In the physical chart more sections were added from the previous 2006 data such as; CD single, Cassette, Vinyl, DVD audio, SACD (Super Audio Compact Disc), and DVD video. There was no reason or information given as to why those sections were not provided in the 2006 chart. Key features to take note on is the slow decline of CD singles, Cassettes, DVD audio, SACD, and Vinyls are more likely to be found in local record stores. Interesting fact to note in the digital chart that Digital Performance Royalties were added accounting for 47 million. Digital Kiosks aren't as popular domestically as they are internationally, such as in Japan where internet shops are more popular. Digital singles are accounting for the majority of the units shipped in 2007, driving out the compact disc singles.

2008 Year End Shipments

Physical	2008 (in millions)	% 2007-2008
(Units Shipped)	384.7	-24.7%
(Dollar Value) CD	5,471.3	-26.6%
CD Single	0.7 3.5	-71.7% -71.3%
Cassette	0.1 0.9	-62.8% -70.7%
LP/EP	2.9 56.7	124.1% 147.7%
Vinyl Single	0.4 2.9	-30.9% -27.4%
Music Video	12.8 218.9	-53.6% -54.9%
DVD Video	12.3 215.7	-53.8% -54.7%
Total Units	401.8	-26.1%
Total Value	5,758.5	-27.9%
Total Retail Units	348.7	-24.9%
Total Retail Value	5,474.3	-27.0%
Digital	2008 (in millions)	% 2007-2008
Download Single	1,033.0 1,022.7	27.5% 27.6%
Download Album	56.9 568.9	33.9% 33.9%
Kiosk	1.6 2.6	-8.7% -1.2%
Music Video	20.8 41.3	46.7% 46.7%

Physical	2008 (in millions)	% 2007-2008
Total Units	1,112.3	28.1%
Total Value	1,635.4	30.1%
Mobile	338.4	-6.5%
	816.3	-7.3%
Subscription	1.6	-15.0%
	188.2	-6.5%
Digital Performance Royalties	81.8	74.1%

In 2008, Digital sales rose to 34% from 23%, and physical sales decline from 77% to 66% (see Figure 3 on page 61). Physical CD singles are declining from the previous year of 2.6 million to 0.7 million shipped. SACD and DVD audio are removed from the physical chart. Digital singles are rising with 1.033 billion shipped from prior year of 809.9 million being shipped. Digital performance revenues have risen from 47 million to 81.8 million. Cassettes are declining from prior year of 0.4 million to 0.1 million units being shipped.

2009 Year End Shipments

Physical	2009 (in millions)	% 2008-2009
(Units Shipped)	292.9	-20.5%
(Dollar Value) CD	4,274.1	-21.9%
CD Single	0.9	17.8%
	3.1	-12.5%
Cassette	0.0	-102.8%
	0.0	-104.9%
LP/EP	3.2	10.8%
	60.2	6.2%

Physical	2009 (in millions)	% 2008-2009
Vinyl Single	0.3 2.5	-30.2% -15.3%
Music Video	12.1 218.1	-5.2% -0.4%
DVD Video	11.5 212.9	-6.4% -1.3%
Total Units	309.5	-19.7%
Total Value	4,562.0	-20.8%
Total Retail Units	272.0	-18.2%
Total Retail Value	4,382.2	-20.0%
Digital	2009 (in millions)	% 2008-2009
Download Single	1,138.3 1,220.3	9.2% 18.2%
Download Album	76.4 763.4	20.2% 20.2%
Kiosk	1.7 6.3	7.9% 147.1%
Music Video	20.4 40.6	-1.9% -1.9%
Total Units	1,236.8	9.6%
Total Value	2,030.7	18.7%
Mobile	305.8 728.8	-24.5% -25.4%
Subscription	1.2 213.1	-25.5% -3.7%
Digital Performance Royalties	155.5	55.5%

In 2009, digital sales rose to 41% from 34% the prior year and physical sales declined from 66% to 59% units shipped (see Figure 4 on page 61).

Cassettes tapes are completely

obsolete in 2009 with no units shipped or profited from. Less physical CDs are being shipped from 2008's 384.7 million to 2009's 292.9 million albums being

shipped. Digital Performance Royalties are rising to 155.5 million from the prior year of 81.8 million. As stated from previous research in Chapter 4, artists

signed before the digital era were not receiving their proper royalties from digital music distribution, but artists signed recording contracts after the digital era are more equipped for the business model change.

2010 Year End Shipments

Physical	2010 (in millions)	% 2009-2010
(Units Shipped)	225.8	-22.9%
(Dollar Value) CD	3,361.3	-21.4%
CD Single	1.2 3.3	31.2% 7.2%
LP/EP	4.0 87.0	25.9% 44.4%
Vinyl Single	0.3 2.2	-3.9% -9.4%
Music Video	9.1 178.8	-22.6% -15.7%
DVD Video	8.7 175.3	-22.4% -15.3%
Total Units	240.5	-22.2%
Total Value	3,635.1	-20.2%

Physical	2010 (in millions)	% 2009-2010
Total Retail Units	212.4	-21.8%
Total Retail Value	3,518.5	-19.6%
Digital	2010 (in millions)	% 2009-2010
Download Single	1,162.4	2.1%
	1,366.8	12.0%
Download Album	83.1	8.8%
	828.8	8.6%
Kiosk	1.7	-3.4%
	6.4	1.2%
Music Video	18.1	-11.1%
	36.1	-11.1%
Total Units	1,265.4	2.3%
Total Value	2,238.1	10.2%
Mobile	220.5	-27.9%
	526.7	-27.7%
Subscription	1.5	-29.9%
	200.9	-5.7%
Digital Performance Royalties	249.2	60.3%

In 2010, digital sales rose from 41% to 47% and physical sales declined from 59% to 53% (see Figure 5 on page 62). The 2010 Year End Shipment Statistics are the latest updated statistics issued out from the Recording Industry Association of America. CD singles took a slight rise back up from 0.9 million shipped to 1.2 million shipped. EP (Extended Play) took a slight rise back up from 3.2 million to 4.0 million, artists releasing EP albums have become more of a trend. Digital Performance Royalties rose to 249.2 million from 155.5 million.

Digital album downloads are slowly rising and becoming more desired from 76.4 million to 83.1 million. The data from the latest Year End Shipment Statistics shows the consistency of the rise of digital music distribution and how its presence is affecting the music industry.

The 2011 Year End Shipment Statistics are not available at the present time, but more information from the list is becoming available. CNN reported, “According to a Nielsen and Billboard report, digital music purchases accounted for 50.3% of music sales in 2011 (see Figure 6 on page 62). Digital sales were up 8.4% from the previous year, while physical album sales declined 5%.” (Segall, 2012) With the trend shown in the prior RIAA Year End Shipment Statistics, there was no surprise that digital music distribution would eventually surpass physical distribution sales. The data provided answers my first proposed question of “How is digital music distribution affecting the music industry?”. Since 2003, the entire business model of the music industry has changed with the introduction of iTunes and other similar online music distribution sites. According to the RIAA Year End Shipment Statistics shown digital music distribution started small and has been on the rise since its introduction unto the statistics list. It is easy to predict at the current rate of digital distribution growth that it will eventually in the upcoming years phase out compact disc sales and become the leading source of music purchases.

CHAPTER 6

CONSUMER BEHAVIOR

I will now discuss consumer behavior behind their decisions on purchasing digital music and pirating music by qualitative research. The figures in chapter 5 clearly show that digital music has risen to become more popular than purchasing a physical copy of an album. I have collected data from Avenue A/Razorfish and Nielsen/MIDEM which specializes in global marketing and advertising research.

I will now present the research found in chronological order. Avenue A/Razorfish's study was conducted on digital consumer behavior in July of 2007. A survey was conducted on 475 digital consumers in the United States about their online purchasing experiences. Consumers were asked if they purchased music online and 58% answered no, while 42% answered yes. It was interesting to compare the data with RIAA's Year End Shipments for 2007 with 77% of music sales being physical while 23% accounted for digital; both data compared shows digital music receiving the lesser end in the year 2007. 67% of users watch youtube videos and 33% do not; this information states that online videos help offline consumption. 91% of the subjects surveyed relied on the internet to obtain their source of news, the majority of the consumers are always online. Consumers were asked if they used their mobile devices to listen to music; 6%

responded all the time, 5% responded most of the time, 68% responded never, and 20% responded once in a while. Interesting comparing that data with 2007's RIAA Year End Shipment of 361 million mobile music purchases. It is interesting to note that the first iPhone was not released until June 29th, 2007, so before this music consumers were using iPods or similar products as their main music player. If the iPhone was on the market for a longer period of time, would the results of this survey have been different?

The "Digital Music Consumption and Digital Music Access" was provided by Nielsen and MIDEM, 26,644 online consumers were surveyed across the globe. While sales in digital music are increasing while physical sales decline, according to research from Nielsen in the 1st quarter of 2011, Asian, Latin American, and the Middle East favor downloading pirated music. Nielsen's data, like the RIAA shows that individual songs sell more than full albums via online distribution. It was also reported that fewer than 20 percent of the internet's users worldwide pay for downloads. Nielsen conducted a survey in January 2011 and found that over 50% watch music videos on the computer, close to 50% of users have illegally downloaded music, more than 20% have streamed music from the computer, less than 20% have paid for downloaded singles, less than 10% have paid for full album downloads, and over 20% have watched music videos and streamed music from their mobile devices. The data is collected globally, and prior research found that piracy rates are higher internationally. "Digital music purchases accounted for 50.3% of music sales in 2011 (domestically)." (Segall, 2012) This Nielsen data provided answers about how piracy is affecting the

digital music industry. Although digital sales are up, close to half the consumers surveyed still downloaded free music. Further research in this Nielsen report breaks down the age differences: a majority of consumers are more likely to download free music with the highest bracket being 21 to 24 years of age. Those over 65 were less likely to download free music.

In the digital age there are many routes a consumer can go to acquire music. Piracy will always be an ongoing battle and there is no specific reason why an individual would download free music. Chapter 5 data shows that digital music consumption is high but that consumers downloaded free music. In further research, I would conduct a survey and collect my own results to assess how digital music affecting the industry and piracy affecting the music industry is related to consumer behavior.

CHAPTER 7

RESULTS AND CONCLUSIONS

I will now conclude all the findings and data acquired during the course of research to answer “How is digital music distribution affecting the music industry?” and “In what way does the piracy industry affect the digital music industry?”. I have performed studies on an independent artist, major artists, an independent label, a major label, physical and digital sales, and consumer behavior to acquire answers to my questions. With all the above these are the results and conclusions I have found.

Independent artist Mac Miller recognizes how the current industry works, and he realizes that creating a strong brand and a strong following via the internet is important despite the risks of piracy. To answer my first question Mac Miller's first LP accounted for 76% digital sales for his first week sales. Miller recognized early in his career the benefits of using the internet and creating free mixtape compilations to gain a loyal fan base. Mac Miller's strong debut is a triumph of social networking, he has a combined 2.7 million followers on Twitter, Facebook and Myspace.

“In what way does the piracy industry affect the digital music industry?”. There is no way to fully prevent piracy. Mac Miller's career was built on giving away free music; he understood what it takes to become successful in the

internet driven music industry today. Mixtape websites, blogs, and file sharing sites such as hulkshare, zshare, sendspace etc., have helped Mac Miller distribute his music to the masses. A few of the songs he has given away for free, were later sold on iTunes to high sales.

“If the artist releases his/her music for free and later sell it on an online music distribution site, would that be considered piracy if a consumer downloads the free version?” Once a song is circulating around the internet for free, it is hard to stop it. Artists sometimes give fans the option to purchase or download the music for free, although record labels may not fully agree, but what has to be recognized is that if the product is good consumers will purchase it. Mac Miller’s career was built on free music, and piracy had a small effect on his career based off the strength of his following and brand. An independent artist’s career is built overtime, before the digital era, the artist would have to distribute his own music to gain awareness for him or herself.

The case study about Jay-Z and Kanye West answers how digital music distribution affected the music industry and how the piracy industry affected digital music distribution. Jay-Z began his career pre digital era and when Kanye West released his first album in 2004 he was already immune to the ways of piracy on the internet. Both Jay-Z and Kanye West have become huge stars and unlike Mac Miller, they are not used to giving away a lot of free music. “Watch The Throne” did not leak prematurely, but it still leaked after the album was released on iTunes. The release of “Watch The Throne” was an huge stepping stone for finding the answer to prevent piracy. Jay-Z adjusted his business

strategy by releasing his album on iTunes one week before a physical release. Jay-Z also realized that once his “Black Album” was mashed up by DJ Danger Mouse creating “The Grey Album”, how important the internet was to an upcoming artist or producer’s career.

Chapter 4 shows that digital music has changed the business structure and improved the industry, even though battling piracy will always be an ongoing issue. Major labels, just like independent labels, now seek talent that comes with a full package such as quality music, internet presence, and a following. Universal Music Group owning Interscope Records stood against piracy support SOPA and E1 Music distributes via Universal Music Group. E1 Music being an independent label and business does not want music stolen, but the majority of independent artists such as Mac Miller have used multiple sources of giving away free music to gain awareness. Taking away too much freedom on the internet can have a negative effect on certain upcoming or independent acts, but established acts such as Jay-Z and Kanye West who rarely release free music would want to make sure all profits are gained.

The chapter 5 results show a slow growth in digital music sales and a slow decline in physical music sales. RIAA shipments from 2006 to 2010 shows how the music industry’s business model changed from using cassettes, to slow decreases in CD sales, and growth of digital distribution. The last RIAA statement in 2011 has digital music over physical sales with 50.3% over 49.7%.

The results in chapter 6 concluded digital sales are growing but piracy is still a huge factor. The battle on piracy will continue to be an ongoing battle.

Research shows consumers in the young age brackets are more likely to steal music versus older consumers. Consumers are more likely to purchase singles than albums. In further research, I would conduct a survey and collect my own results so I could assess how digital music affecting the music industry and piracy affecting the music industry is relating to consumer behavior.

To conclude, digital music distribution has restructured the music industry in a positive way. Artists are finding new ways to distribute their music and using the internet as a primary source for spreading awareness of their music and brand. Record Labels (both independent and major) are aware of the technological changes and are crediting the digital era as a “savior” of the music industry. RIAA statistics show steady growth of digital music distribution finally surpassing physical sales in 2011. One negative effect could be that physical albums would become totally obsolete, and industry jobs might be lost. Further research on this topic can help determine where the future of physical music sales will go. Consumers are more reliant on internet in today’s culture and a majority of the population uses it on a daily basis. Although early statistics conclude that digital music sales are on the rise, with easy access to iTunes and other sites, but consumers are also still willing to download free music. Artists like Mac Miller are giving away free music and creating content that is so desirable, that fans are willing to pay for it. Jay-Z and Kanye West found the answer to stopping early leaks on their albums by releasing digitally first, but retailers have taken a huge loss in sales. Record labels have taken a stance

against piracy by supporting legislation such as SOPA to battle online piracy.

For further research, there are many new developments regarding online piracy.

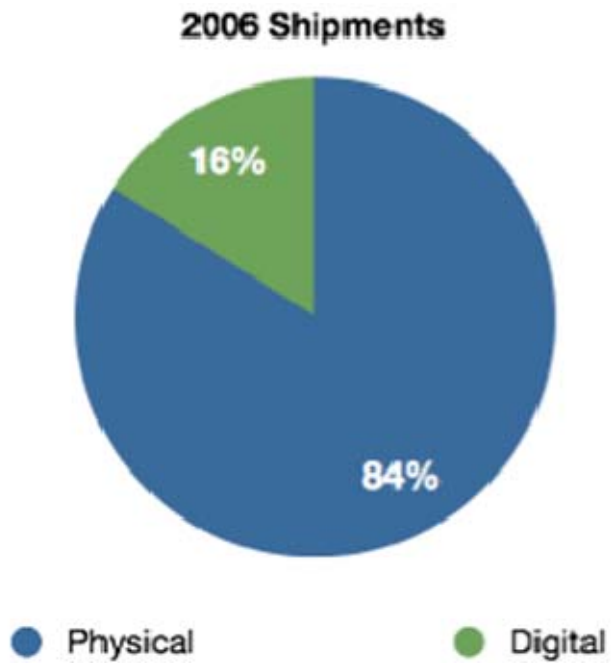


Figure 1

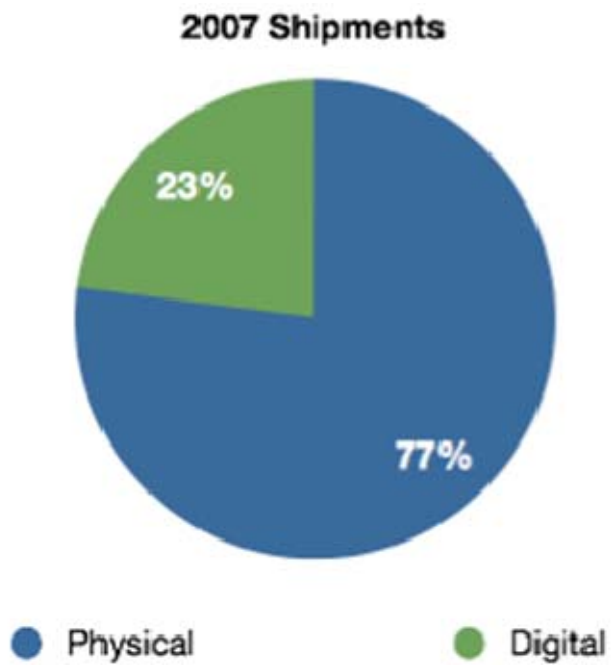


Figure 2

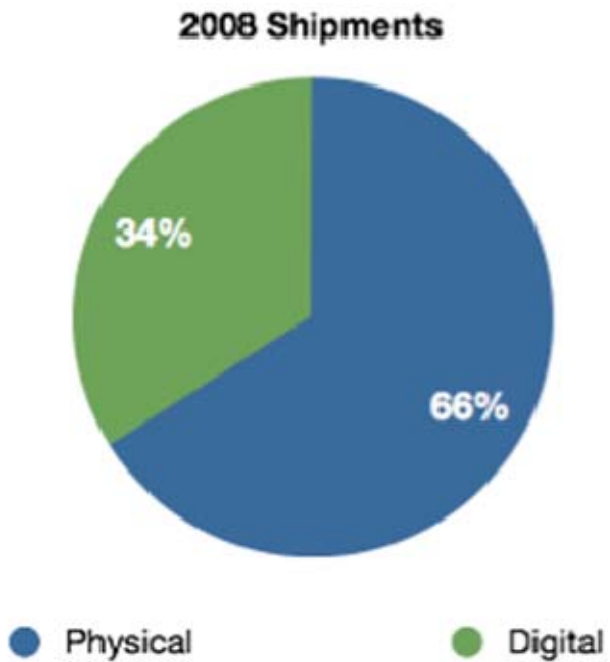


Figure 3

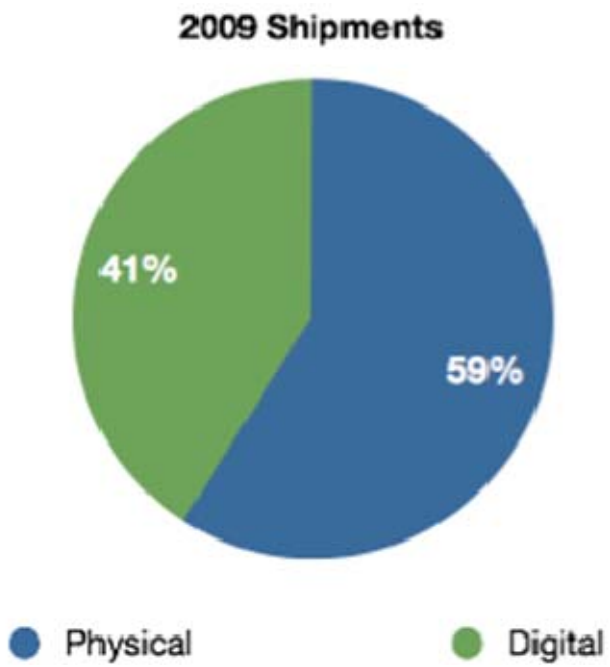


Figure 4

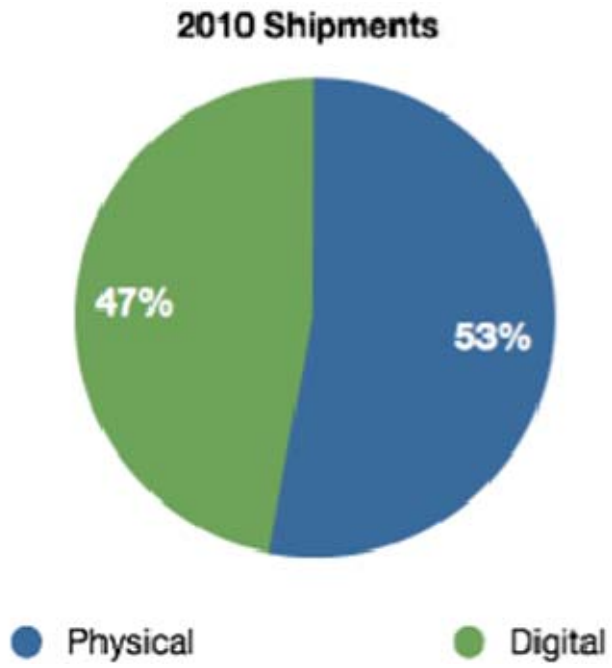


Figure 5

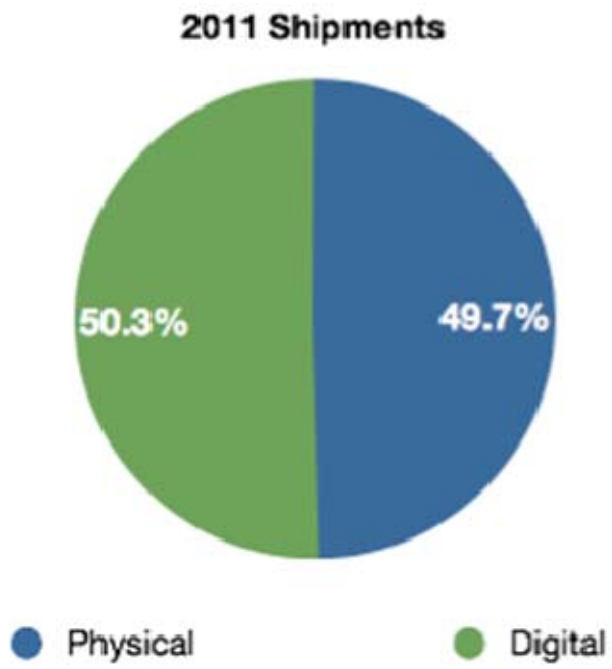


Figure 6

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